

Regions Investment Management

Quarterly Overview

State of Alabama Treasurer's Office

Prepaid Affordable College Tuition (PACT) Program

As of September 30, 2018

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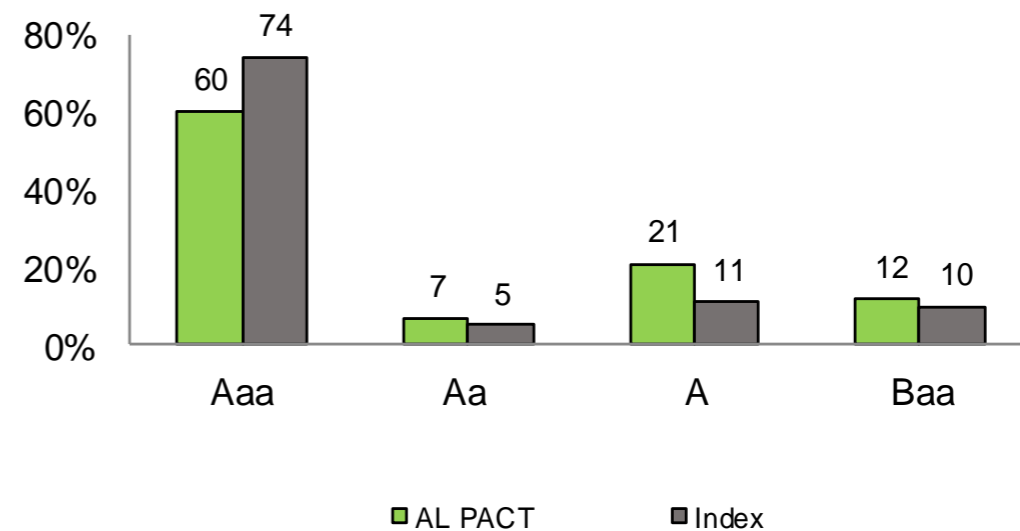
Bond Portfolio Overview

- Characteristics
- Performance
- Manager Universe
- Allocation Detail

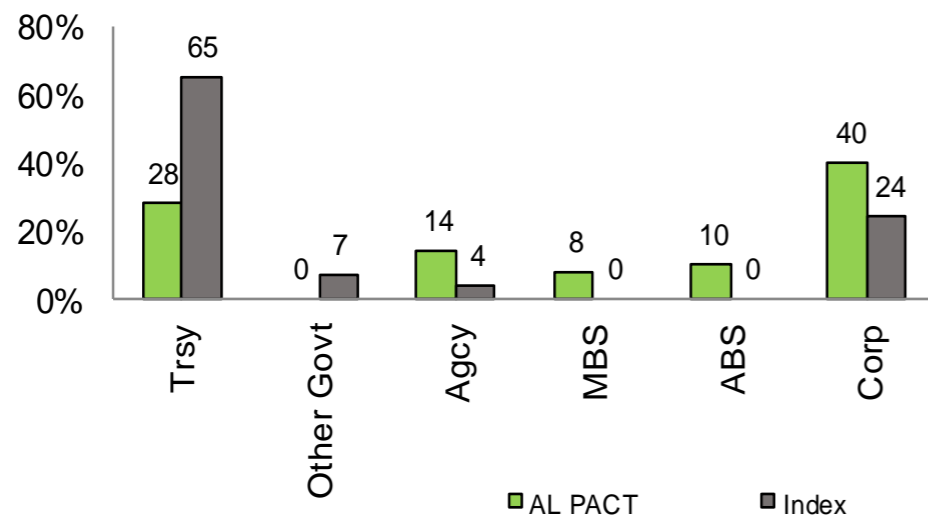
3Q18 Fixed Income Portfolio Characteristics vs. Index

| | AL PACT | Index |
|--------------------|----------|----------|
| Yield to Maturity | 2.93% | 2.94% |
| Effective Duration | 1.87 Yrs | 1.92 Yrs |
| Maturity | 2.59 Yrs | 2.00 Yrs |
| Average Coupon | 2.36% | 2.29% |
| Average Quality | Aa3 | Aa1 |

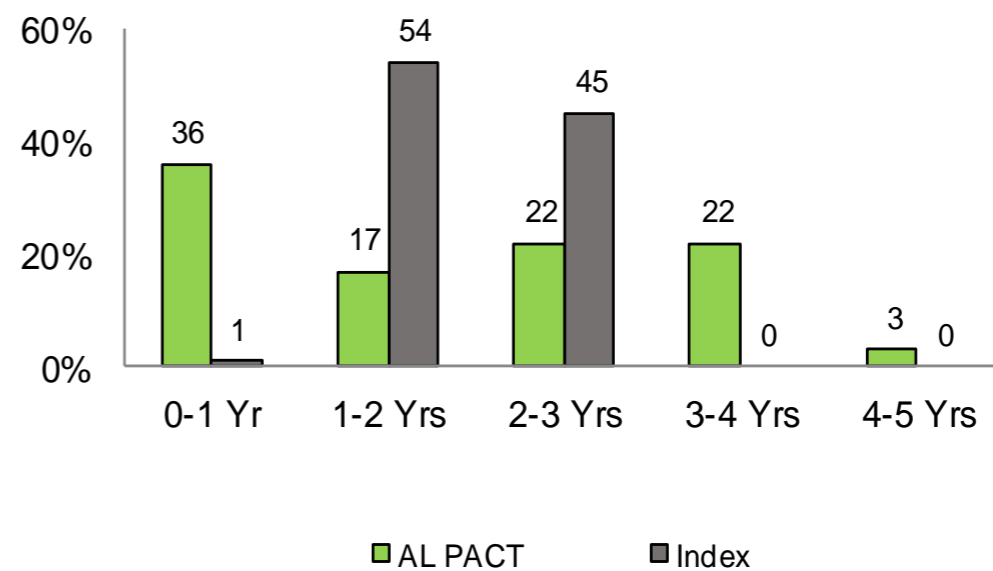
Quality vs. Index



Sector Distribution vs. Index



Duration Distribution vs. Index



Source: Portfolio: Bondedge; Index: Bloomberg Barclay's 1-3 Year Govt / Credit

State of Alabama Treasurer's Office - Prepaid Affordable College Tuition (PACT) Program

Total Returns Compared with the Benchmark

As of 09/30/2018

| | Qtr | YTD | 1-Yr | Inception * |
|----------------------|--------------|--------------|--------------|--------------|
| AL PACT | 0.43% | 0.50% | 0.51% | 1.26% |
| Benchmark | 0.34% | 0.41% | 0.20% | 0.92% |
| <i>Excess Return</i> | <i>0.09%</i> | <i>0.09%</i> | <i>0.31%</i> | <i>0.34%</i> |

Returns are shown **net of fees**;

Past performance does not guarantee future returns; *Periods greater than one year are annualized; Inception Date as of 12/31/2015

Source: SEI & Bloomberg Barclays

Index: Bloomberg Barclays 1-3 Year Gov/Credit

State of Alabama Treasurer's Office - Prepaid Affordable College Tuition (PACT) Program

Manager Universe Rankings



Universe: eVestment US Short Duration Fixed Income

| | MRQ | | YTD | | 1 Year | | 2 Years | | Since Inception 2.75 Years ¹ | |
|----------------------------|------------|----|------------|----|------------|----|------------|----|---|----|
| | Return (%) | Rk | Return (%) | Rk | Return (%) | Rk | Return (%) | Rk | Return (%) | Rk |
| 5th percentile | 0.84 | | 1.44 | | 1.72 | | 2.26 | | 2.86 | |
| 25th percentile | 0.61 | | 0.93 | | 1.02 | | 1.30 | | 1.88 | |
| Median | 0.48 | | 0.68 | | 0.65 | | 0.83 | | 1.43 | |
| 75th percentile | 0.39 | | 0.37 | | 0.29 | | 0.58 | | 1.12 | |
| 95th percentile | 0.23 | | 0.00 | | -0.12 | | 0.18 | | 0.75 | |
| # of Observations | 200 | | 200 | | 200 | | 199 | | 198 | |
| ◆ RIIM | 0.43 | 63 | 0.50 | 68 | 0.51 | 62 | 0.81 | 52 | 1.27 | 60 |
| ■ Bloomberg Barclays Index | 0.33 | 84 | 0.41 | 73 | 0.20 | 78 | 0.43 | 82 | 0.92 | 89 |

Results displayed in USD.

¹Q1 2016 - Q3 2018

State of Alabama Treasurer's Office - Prepaid Affordable College Tuition (PACT) Program

Allocation Detail

INVESTMENT RETURN SUMMARY - QUARTER ENDING SEPTEMBER 30, 2018

| Name | Current Quarter Total Return | Prior Quarter Market Value | Net Cashflow | Investment Return | Current Quarter Market Value * |
|------------------------|------------------------------|----------------------------|--------------------|-------------------|--------------------------------|
| Regions (STFI) | 0.45% | 62,380,124.37 | (\$7,766) | \$282,650 | 62,655,008.59 |
| Regions Cash (CASH) | 0.60% | \$12,190,832 | \$8,998,478 | \$126,307 | \$21,315,617 |
| Regions Lockbox (CASH) | 0.00% | \$2,155,436 | (\$385,430) | \$0 | \$1,770,005 |
| Total Portfolio | | \$76,726,392 | \$8,605,282 | \$408,957 | \$85,740,631 |

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$13,449,411.88 that was in the Treasury Account on September 30, 2018.

MANAGER ALLOCATION SUMMARY - QUARTER ENDING SEPTEMBER 30, 2018

| Prior Quarter Market Value | % | Fund Name | Style | Current Quarter Market Value * | % |
|----------------------------|-------------|------------------|---------------|--------------------------------|-------------|
| \$4,386 | 0% | Residuals | (FIXD) | 4,405.25 | 0% |
| \$62,380,124 | 81% | Regions | (STFX) | 62,655,008.59 | 73% |
| \$12,190,832 | 16% | Regions Cash | (CASH) | 21,315,617.35 | 25% |
| \$2,155,436 | 3% | Regions Lockbox | (CASH) | 1,770,005.26 | 2% |
| \$76,730,778 | 100% | Composite | (TOTL) | \$85,745,036 | 100% |

* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$13,449,411.88 that was in the Treasury Account on September 30, 2018.

Economic & Financial Market Update

Economy

Overview & Outlook

| | | | |
|----------------|--|---|--|
| Economy | | <p>Risks:</p> <ul style="list-style-type: none"> ▪ Inflation could surprise to the upside, prompting the FOMC to do the same ▪ Heightened geopolitical tensions ▪ Potential financial instability in China ▪ Moves to limit imports into U.S spark global trade spats, weighing on global growth | <p>Opportunities:</p> <ul style="list-style-type: none"> ▪ Labor market conditions continue to improve ▪ Rising real incomes ▪ Solid rate of house price appreciation ▪ Healthy household balance sheets ▪ Regulatory relief and expansive fiscal policy pose upside risks for U.S. growth |
|----------------|--|---|--|

Economic Expansion Rolls Along

Solid Top-Line Growth, Impacts Of Trade Policy Evident In The Details

- The BEA’s third estimate puts Q2 2018 real GDP growth at an annualized rate of 4.2 percent, matching the second estimate. Consumer spending, net exports, and business investment were the main drivers of Q2 growth, while inventory investment was a sizeable drag on growth.¹
- The trade deficit narrowed sharply in Q2 due to a spike in exports of U.S. goods, and the narrower trade gap added 1.22 percentage points to top-line real GDP growth. Some portion of the goods sold as exports came from existing inventories of unsold goods, which led to a slower rate of inventory accumulation in the nonfarm business sector that deducted 1.17 percentage points from top-line real GDP growth in Q2.¹
- The spike in U.S. exports in Q2 largely reflected foreign buyers front-loading purchases of U.S. goods to avoid retaliatory tariffs on goods produced in the U.S. The most notable example of this was China loading up on soybeans from the U.S. ahead of tariffs taking effect in July. As such, the spike in U.S. exports of goods will be reversed in the Q3 data. At the same time, ahead of additional U.S. tariffs on imported goods, U.S. retailers accelerated orders of foreign goods to be sold during the upcoming holiday season, leading to faster growth in imports and stepped-up inventory accumulation in Q3.
- The bottom line is that trade inventories will flip roles in the Q3 GDP data, with trade swinging from a driver to a drag and inventories swinging from a drag to a driver. Though the renegotiation of the trade agreement formerly known as “NAFTA” has been largely settled, the ongoing trade dispute with China seems to be intensifying, thus posing a threat to growth in 2019.

Source: Bureau of Economic Analysis (BEA)¹; Bureau of Labor Statistics (BLS)²

Monetary Policy Still Accommodative, Even if FOMC No Longer Says So

- Total nonfarm employment rose by 134,000 jobs in September, well below expectations, but prior estimates of job growth in July and August were revised up by a net 87,000 jobs for the two-month period.² There are, however, two main reasons to discount the soft September job growth number. First, calendar effects contributed to measured August job growth being overstated, meaning that some portion of the 270,000 jobs added in August came at the expense of September job growth. Second, Hurricane Florence struck during the September establishment survey period, and the disruption in economic activity held down measured September job growth.
- Beneath the swings in the headline job growth numbers, the trend rate of job growth remains rock solid. Over the past 12 months the economy has added an average of 214,000 jobs per month.² At 3.7 percent as of September, the jobless rate is lower than at any time since December 1969. Average hourly earnings rose by 0.3 percent in September, leaving them up 2.8 percent year-on-year.²
- As expected, the FOMC lifted the Fed funds rate target range by 25 basis points at their September meeting. The “dot plot” released in conjunction with the FOMC meeting implied one additional 25-basis point hike in the funds rate by year-end 2018 and three additional hikes in 2019.
- The FOMC’s post-meeting policy statement was noteworthy, not so much for what it said but for what it no longer said. The passage characterizing monetary policy as “accommodative” was cut from the statement. In his post-meeting press conference, Chairman Powell stated that this did not signal a change in policy, which remains accommodative even if the FOMC no longer says so.

Economy

Overview & Outlook

| | | | |
|----------------|--|---|--|
| Economy | | <p>Risks:</p> <ul style="list-style-type: none"> ▪ Inflation could surprise to the upside, prompting the FOMC to do the same ▪ Heightened geopolitical tensions ▪ Potential financial instability in China ▪ Moves to limit imports into U.S spark global trade spats, weighing on global growth | <p>Opportunities:</p> <ul style="list-style-type: none"> ▪ Labor market conditions continue to improve ▪ Rising real incomes ▪ Solid rate of house price appreciation ▪ Healthy household balance sheets ▪ Regulatory relief and expansive fiscal policy pose upside risks for U.S. growth |
|----------------|--|---|--|

U.S. Growth Story Hasn't Changed

Amidst Market Rattling Headlines, U.S. Economy Remains Firmly On Track

- The BEA's second estimate shows real GDP grew at a 2.2 percent annualized rate in Q1 2018, slightly below the initial estimate of 2.2 percent.¹
- In any given year, Q1 growth is prone to downward bias due to residual seasonality in the component data, and this year's soft Q1 print does not alter our expectations for real GDP growth of around 3.0 percent for 2018 as a whole, with Q2 growth at present tracking at just over 4.0 percent.
- The revised GDP data show real business investment in equipment and machinery grew at an annualized rate of 5.5 percent in Q1, up from the initial estimate of 4.7 percent growth. Though often neglected in discussions of business capital spending, outlays on structures, software, and R&D, are also key components of business investment and have grown smartly over recent quarters.¹ Sustained growth in business investment, particularly software and R&D activities, will be critical in fueling faster growth in labor productivity, which has been a notable drag on growth during the current expansion.
- The ISM Manufacturing Index rose to 58.7 percent in May, marking the 21st consecutive month in which the index has been above the 50.0 percent break between contraction and expansion. The details of the ISM data show a manufacturing sector struggling to keep pace with robust growth in demand, both domestic and foreign, as backlogs of unfilled orders continue to grow.² Steady growth in new orders and growing backlogs of unfilled orders point to continued growth in manufacturing employment and increased capital investment over coming quarters. Trade policy, however, looms as a downside risk to the U.S. manufacturing sector.

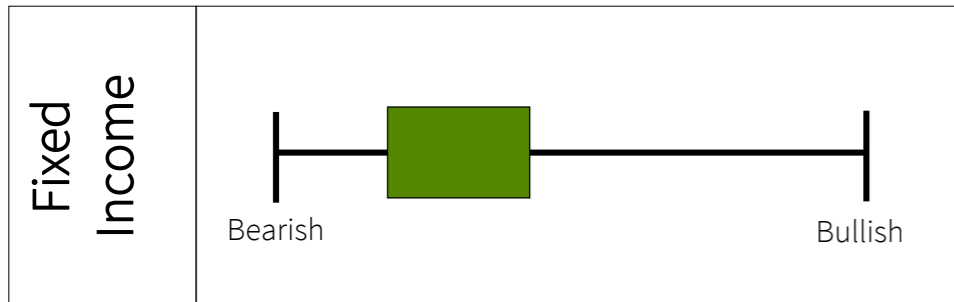
Labor Market Remains Rock Solid

- Total nonfarm employment rose by 223,000 jobs in May, easily topping market expectations. To some degree, May's strong job growth reflected payback for harsh "winter" weather having disrupted hiring, and aggregate hours worked, in April. Of more significance than the month-to-month swings in headline job growth is that over the past 12 months the U.S. economy has added 2.372 million jobs, or, an average of 198,000 per months, more than sufficient to keep downward pressure on the unemployment rate. Job growth remains notably broad based across private sector industry groups, with the one-month hiring diffusion index standing at 67.6 percent in May.³
- Average hourly earnings rose by a better than expected 0.3 percent in May, leaving them up 2.7 percent year-on-year.³
- The unemployment rate fell to 3.8 percent in May on slightly lower labor force participation. The broader U6 measure, which accounts for unemployment and underemployment, fell to 7.6 percent, the lowest since May 2001.³
- The FOMC is widely expected to shift the Fed funds rate target range up by 25 basis points at their June 12-13 meeting, leaving the mid-point of the target range at 1.875 percent. The bigger question around the June FOMC meeting is whether the updated "dot plot" will imply a total of three or four 25-basis point funds rate hikes in 2018. Though there are few signs that core inflation is poised to break out to the upside, many FOMC members see an unemployment rate of below 4.0 percent as a sign of sharply faster wage growth over coming months, leading to mounting inflation pressures in the broader economy. These concerns could be sufficient to shift the dot plot in June.

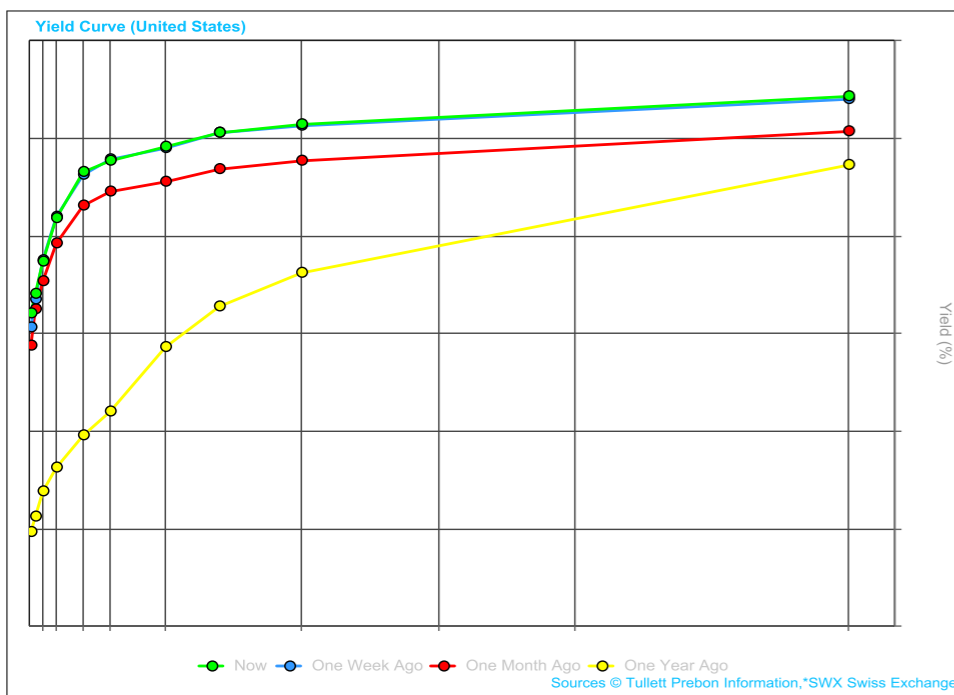
Source: Bureau of Economic Analysis (BEA)¹; Institute for Supply Management (ISM)²; Bureau of Labor Statistics (BLS)³

Fixed Income

Overview & Outlook



| Yields as of September 30, 2018 | |
|---------------------------------|-------|
| US Treasuries | |
| 3-month | 2.19% |
| 2-year | 2.81% |
| 5-year | 2.95% |
| 10-year | 3.05% |
| 30-year | 3.20% |



Summary View: Bearish

- Valuations are very expensive and better relative opportunities are available.
- Global developed sovereign bonds remain unattractive with little yield. Emerging market bonds provide a more attractive yield relative to developed countries, but currency effects can greatly influence int'l bonds for a U.S. investor. Differing interest rate cycles and currency effects provide diversification benefits.
- We expect yields to rise in 2018 as positive steps on the policy front combined with continued global growth leads to greater than expected inflation pushing yields higher.

Risks:

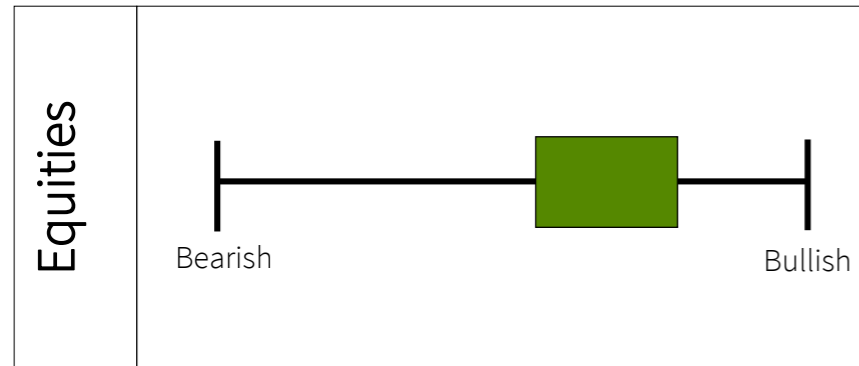
- Lower growth and inflation creates less upward pressure on long-term interest rates versus expectations.
- Flight to safety causes a rally in bonds and other safe haven assets.
- USD appreciation impacts international bond returns and specifically EM countries ability to finance USD denominated debt.

| | YTD 9/30/18 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|----------------|--------|--------|--------|--------|--------|
| Total Return | | | | | | |
| Barclays US Agg Bond TR USD | -1.60% | 3.54% | 2.65% | 0.55% | 5.97% | -2.02% |
| Barclays High Yield Corp TR USD | 2.57% | 7.50% | 17.13% | -8.30% | 2.45% | 7.44% |
| Barclays Global Agg Ex USD TR | -3.03% | 10.51% | 1.49% | 0.36% | -3.08% | -3.08% |
| Barclays US Treasury US TIPS | -0.84% | 3.01% | 4.68% | -1.44% | 3.64% | -8.61% |
| FTSE Treasury Bill 3 Month (Money Market) | 1.29% | 0.86% | 0.33% | 0.05% | 0.03% | 0.05% |

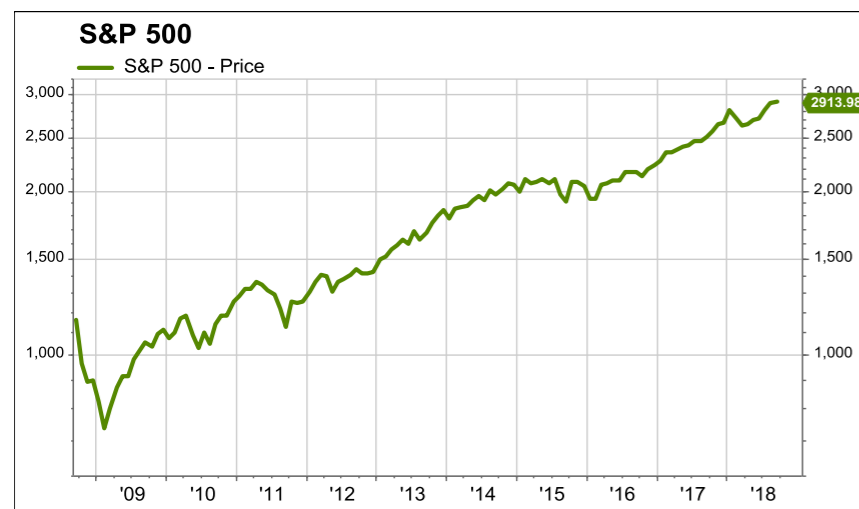
Source: FactSet

Equities

Overview & Outlook



| S&P 500 Statistics as of September 30, 2018 | |
|---|-------|
| Fundamentals | |
| 2017 Earnings | \$133 |
| 2018 Earnings Estimates | \$162 |
| Forward P/E | 18x |
| Dividend Yield | 1.73% |
| Technicals | |
| % of Stocks Above 200ma | 61% |
| VIX (CBOE Volatility Index) | 12.12 |



Summary View: Bullish

- Global growth story remains positive but trade tariffs or threats/negotiations could adversely impact future growth. Overall, the probability of a recession remains low.
- Though domestic valuations are above historical averages, the fundamentals underlying the asset class continue to be strong and warrant current levels (ex: earnings, employment, ISM).
- International fundamentals have declined recently but valuations make them appealing for long-term investors.
- Long-term return expectations remain favorable vs. other asset classes, especially emerging market international stocks.

Risks:

- Central bank policy error could create a flight to safety.
- Oil and commodity prices in general have a price shock causing dislocations for consumer spending and margin pressures for corporations.

| | YTD 9/30/2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|------------------|--------|--------|---------|--------|--------|
| Total Return | | | | | | |
| S&P 500 Index (Large Cap) | 10.56% | 21.83% | 11.96% | 1.38% | 13.69% | 32.39% |
| S&P 500 (Large Cap Growth) | 17.24% | 27.44% | 6.89% | 5.52% | 14.89% | 32.75% |
| S&P 500 (Large Cap Value) | 3.51% | 15.36% | 17.40% | -3.13% | 12.36% | 31.99% |
| Russell 2500 Index (Small to Mid Cap) | 10.41% | 16.81% | 17.59% | -2.90% | 7.07% | 36.80% |
| Russell Mid Cap Index (Mid Cap) | 7.46% | 18.52% | 13.80% | -2.44% | 13.22% | 34.76% |
| Russell 2000 Index (Small Cap) | 11.51% | 14.65% | 21.31% | -4.41% | 4.89% | 38.82% |
| MSCI ACWI Ex-US (Foreign Stocks, Net Return) | -3.09% | 27.19% | 4.50% | -5.66% | -3.87% | 15.29% |
| MSCI EAFE Index (Foreign Stocks, Net Return) | -1.43% | 25.03% | 1.00% | -0.81% | -4.90% | 22.78% |
| MSCI EM (Foreign Stocks, Net Return) | -7.65% | 37.28% | 11.19% | -14.92% | -2.19% | -2.60% |

Source: FactSet, Morningstar

Market Returns

| Equities | YTD As of 9/30/18 | Trailing 3 Months 9/30/18 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|----------------------|---------------------------------|--------|--------|---------|--------|--------|--------|
| S&P 500 Index (Large Cap Stocks) | 10.56% | 7.71% | 21.83% | 11.96% | 1.38% | 13.69% | 32.39% | 16.00% |
| S&P 500 (Large Cap Growth) | 17.24% | 9.28% | 27.44% | 6.89% | 5.52% | 14.89% | 32.75% | 14.61% |
| S&P 500 (Large Cap Value) | 3.51% | 5.86% | 15.36% | 17.40% | -3.13% | 12.36% | 31.99% | 17.68% |
| Russell 2500 Index (Small to Mid Cap Stocks) | 10.41% | 4.70% | 16.81% | 17.59% | -2.90% | 7.07% | 36.80% | 17.88% |
| Russell Mid Cap TR USD | 7.46% | 5.00% | 18.52% | 13.80% | -2.44% | 13.22% | 34.76% | 17.28% |
| Russell 2000 Index (Small Cap Stocks) | 11.51% | 3.58% | 14.65% | 21.31% | -4.41% | 4.89% | 38.82% | 16.35% |
| MSCI ACWI Ex-US (Foreign Stocks, Net Return) | -3.09% | -0.71% | 27.19% | 4.50% | -5.66% | -3.87% | 15.29% | 16.83% |
| MSCI EAFE Index (Foreign Stocks, Net Return) | -1.43% | 1.35% | 25.03% | 1.00% | -0.81% | -4.90% | 22.78% | 17.32% |
| MSCI EM (Foreign Stocks, Net Return) | -7.68% | -1.09% | 37.28% | 11.19% | -14.92% | -2.19% | -2.60% | 18.22% |
| Fixed Income | | | | | | | | |
| Barclays US Agg Bond TR USD | -1.60% | 0.02% | 3.54% | 2.65% | 0.55% | 5.97% | -2.02% | 4.22% |
| BofA Merrill Lynch Muni 1-12 YR (Muni Bonds) | 0.06% | 0.00% | 3.21% | 0.02% | 2.34% | 4.27% | -0.12% | 3.40% |
| Barclays Global Agg Ex USD TR | -3.03% | -1.74% | 10.51% | 1.49% | -6.02% | -3.08% | -3.08% | 4.09% |
| Barclays High Yield Corp TR USD | 2.57% | 2.40% | 7.50% | 17.13% | -4.47% | 2.45% | 7.44% | 15.81% |
| Barclays US Treasury US TIPS | -0.84% | -0.82% | 3.01% | 4.68% | -1.44% | 3.64% | -8.61% | 6.98% |
| FTSE Treasury Bill 3 Month (Money Market) | 1.29% | 0.50% | 0.86% | 0.33% | 0.05% | 0.03% | 0.05% | 0.11% |
| Diversified Strategies | | | | | | | | |
| HFRX Global Hedge Index | -1.23% | -0.39% | 5.98% | 2.50% | -3.64% | -0.58% | 6.72% | 3.51% |

Source: Morningstar

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